



Date	Indicator	For	Estimate	Consensus*	Previous Period
22-Jul-2015	FHFA House Price Index MoM	May	0.4%	0.5%	0.3%
22-Jul-2015	Existing Home Sales	Jun	5.37M	5.40M	5.35M
23-Jul-2015	Chicago Fed Nat Activity Index	Jun	NA	NA	-0.17
23-Jul-2015	Initial Jobless Claims	18-Jul	283K	NA	281K
23-Jul-2015	Leading Index	Jun	0.1%	0.1%	0.7%
23-Jul-2015	Kansas City Fed Manf. Activity	Jul	NA	NA	-9
24-Jul-2015	Markit US Manufacturing PMI	Jul P	53.8	53.7	53.6
24-Jul-2015	New Home Sales	Jun	550K	545K	546K

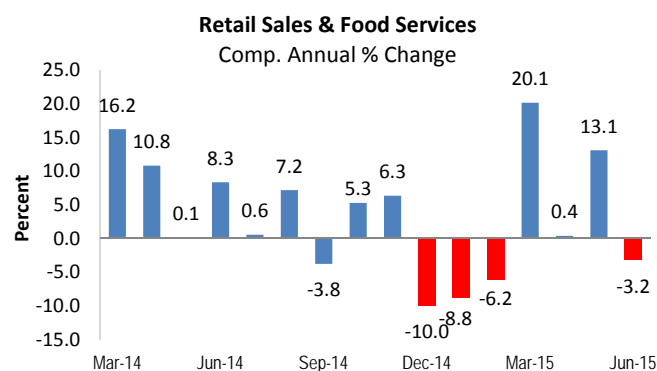
\*Consensus from Bloomberg

## Remain Calm and Carry On

What did our parents say again? Don't sweat the small stuff? June U.S. economic data have come in a bit on the downbeat side with some high profile misses for retail sales and nonfarm payrolls at the same time that financial markets have been rattled by events overseas, specifically a possible Grexit and hard landing for China's stock market if not for China's entire economy. Yet we remain steadfast in our belief in our second half rebound forecast for the U.S. economy. Our advice: remain calm and carry on.

Our first observation is that despite the 0.3 percent drop in retail sales in June, consumer spending trends over a longer-time horizon appear solid. Key drivers of consumer spending from labor market conditions, real income growth, gasoline price declines, increases in household wealth, and declining debt levels, imply even more improvement in real consumer spending growth in the quarters ahead. The drop in June retail sales was likely just a blip after a very strong 1.0 percent monthly gain in sales in May. In fact, if retail sales growth over the next 12 months just maintained its average monthly pace seen for the last four months, retail sales would grow a whopping 7.6 percent. And this is in an economic environment with very little overall consumer price inflation.

## A Longer-Term View of Retail Sales Is Far Less Scary



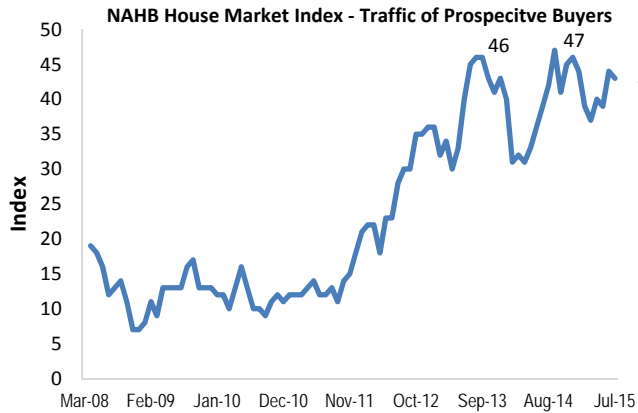
Source: U.S. Census Bureau

Real consumer spending growth of around 3.5% at an annualized rate appears well within reach over the second half of this year, and there is a chance, if consumer optimism catches fire, that consumer spending could even outperform that pace over a brief period of time.

Adding more fuel to the flames to consumer spending is a housing market rebound that is showing no signs of slowing down. Homebuilders are in the catbird seat right now. On the demand side, buyer traffic is gaining pace as pent-up demand from traditional and first-time homebuyers moves to the foreground. Healthy job and household growth should help sustain this demand for the foreseeable future.

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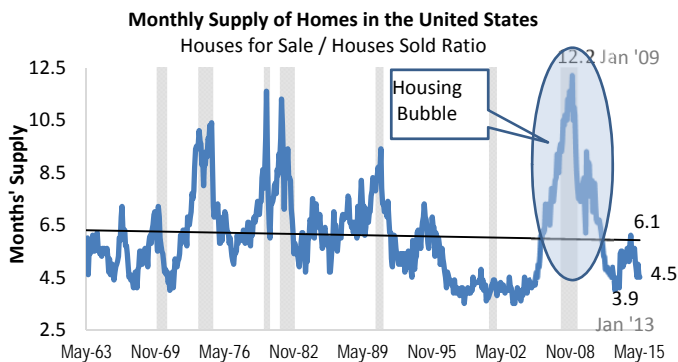
**Homebuyer Traffic Rebounding Nicely**



Source: National Association of Home Builders

Housing supply remains tight by historical standards and homebuilders are starting to realize they need to be building and selling more new houses. Month's supply of new homes for sale fell to 4.5 months in May far below the 6.1 months of new home inventory last July and well-below historical averages.

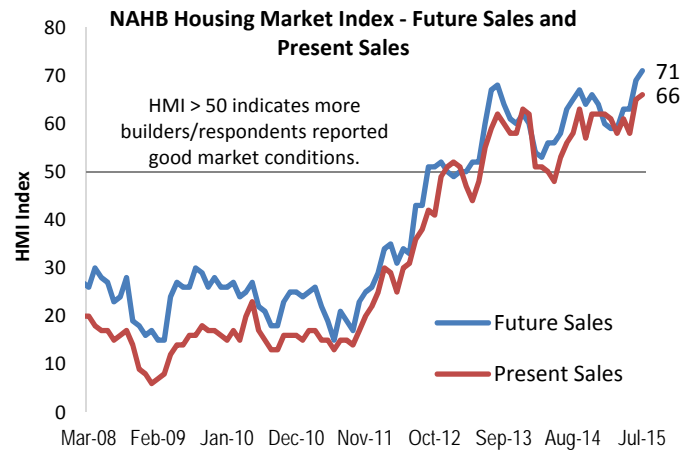
**Homebuilders Have Not Yet Caught Up With Rising Demand**



Source: U.S. Census Bureau

New home sales in May were 33% above year ago levels in the South and 26% above year ago levels in the West and, according to the July NAHB housing market survey, homebuilder's see nothing but better days ahead.

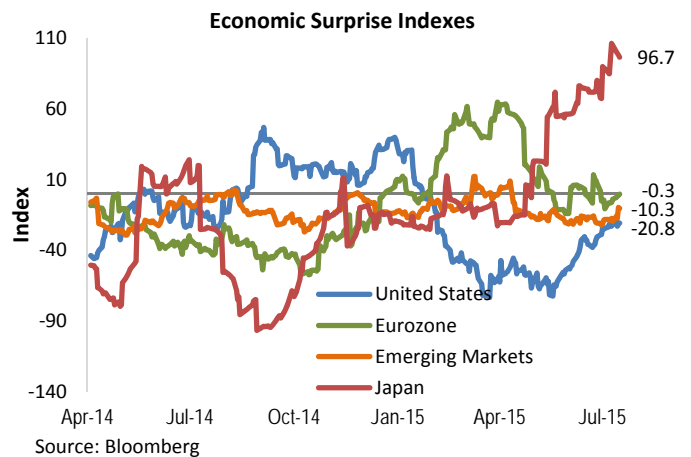
**Homebuilders See Nothing But Blue-Sky Ahead**



Source: National Association of Home Builders

A third cause for optimism is that despite financial market volatility in July, more regions of the world have started to see positive economic surprises. The tonic of looser global monetary policy is beginning to take effect. This is an important sign that limp global growth, which has held back many sectors of the U.S. economy this year from transportation and manufacturing to business investment, may be at a turning point.

**Economic Surprises Turning Positive Around The Globe**



Source: Bloomberg

Our inventory of downside risks for the U.S. economy is smaller than it has been in years, and there is a higher probability of an upside surprise from the consumer and housing markets than we have seen in some time. The first rate hike from the Fed will be coming before too-long (I think the first one would be appropriate in September). And when the Fed does finally pull the trigger, it is unlikely to be the end of the world, but an important marker that the U.S. economy is finally returning to some semblance of normalcy. *Remain Calm and Carry On!*

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## Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2014.1	2014.2	2014.3	2014.4	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2013	2014	2015	2016
Real GDP*	-2.1	4.6	5.0	2.2	-0.2	2.6	2.9	2.9	2.7	2.8	2.7	2.7	2.2	2.4	2.3	2.8
Personal Consumption Expenditures*	1.2	2.5	3.2	4.4	2.1	2.7	3.5	3.4	3.1	3.1	2.9	2.8	2.4	2.5	3.1	3.2
Non-residential Fixed Investment*	1.6	9.7	8.9	4.7	-2.0	2.1	5.0	5.0	4.7	4.6	4.6	4.2	3.0	6.3	3.4	4.6
Private Housing Starts (000s units)	934	984	1,029	1,055	978	1,093	1,121	1,143	1,155	1,170	1,230	1,250	928	1,001	1,084	1,201
Vehicle Sales (mill. Units, annualized)	15.7	16.5	16.7	16.8	16.6	17.1	17.2	17.1	17.2	17.2	17.3	17.3	15.5	16.4	17.0	17.3
Industrial Production*	3.9	5.7	4.1	4.7	0.1	-1.4	3.3	3.2	3.4	3.4	3.4	3.4	2.9	4.2	2.1	3.1
Nonfarm Payroll Employment (mil.)	137.8	138.6	139.4	140.2	141.0	141.6	142.3	143.0	143.6	144.3	145.0	145.7	136.4	139.0	142.0	144.7
Unemployment rate	6.6	6.2	6.1	5.7	5.6	5.4	5.2	5.1	5.0	4.9	4.9	4.8	7.4	6.2	5.3	4.9
Consumer Price Index* (percent)	2.1	2.4	1.2	-0.9	-3.1	2.2	2.0	2.0	2.0	2.0	2.0	2.1	1.5	1.6	0.1	2.0
"Core" CPI* (percent)	1.8	2.2	1.4	1.5	1.7	2.3	1.8	1.9	1.9	1.9	2.0	2.0	1.8	1.7	1.8	1.9
PPI (finished goods)* (percent)	4.1	3.5	0.4	-5.1	-11.2	3.6	1.8	1.7	1.7	1.7	1.8	1.8	1.2	1.9	-2.6	1.9
Trade Weighted Dollar (Fed BOG, major)	76.9	76.4	77.5	82.5	89.3	90.0	91.4	91.7	91.0	91.8	92.5	92.4	75.9	78.4	90.6	91.9
Crude Oil Prices -WTI (\$ per barrel)	99	103	98	73	48	58	55	57	60	61	62	63	98	93	55	62

\*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History				Forecast								Annual Average			
	2014.1	2014.2	2014.3	2014.4	2015.1	2015.2	2015.3	2015.4	2016.1	2016.2	2016.3	2016.4	2013	2014	2015	2016
S & P 500	1,835	1,900	1,976	2,009	2,064	2,102							1,644			
Dow Jones Industrial Average	16,177	16,604	16,954	17,345	17,808	18,004							15,010			
Federal Funds Rate (effective)	0.07	0.09	0.09	0.10	0.11	0.12	0.21	0.38	0.63	0.88	1.13	1.38	0.11	0.08	0.21	1.00
Treasury-3 Month Bills (yield)	0.05	0.03	0.03	0.02	0.02	0.02	0.07	0.24	0.53	0.78	1.03	1.28	0.06	0.03	0.09	0.91
Treasury-2 Year Notes (yield)	0.37	0.42	0.52	0.54	0.60	0.61	0.74	0.98	1.35	1.65	1.90	2.23	0.31	0.45	0.73	1.78
Treasury-5 Year Notes (yield)	1.60	1.66	1.70	1.60	1.46	1.53	1.70	1.93	2.34	2.54	2.79	2.92	1.17	1.63	1.66	2.65
Treasury-10 Year Notes (yield)	2.77	2.62	2.50	2.28	1.97	2.16	2.35	2.51	2.71	2.84	2.95	3.18	2.35	2.54	2.25	2.92
Treasury-30 Year Notes (yield)	3.68	3.44	3.27	2.97	2.55	2.88	3.14	3.27	3.31	3.37	3.50	3.63	3.44	3.34	2.96	3.44
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.33	3.50	3.75	4.00	4.25	4.50	3.25	3.25	3.33	4.13
Libor 3-Mo. U.S. Dollar	0.26	0.25	0.24	0.25	0.30	0.30	0.33	0.50	0.75	1.00	1.25	1.50	0.28	0.25	0.36	1.13
Mortgage-30 Year (yield)	4.36	4.23	4.14	3.96	3.72	3.82	4.16	4.30	4.52	4.65	4.76	4.99	3.98	4.17	4.00	4.73
BAA Corporate (yield)	5.12	4.82	4.74	4.73	4.50	4.83	5.20	5.30	5.55	5.70	5.82	6.05	5.10	4.86	4.96	5.78

Source: Bank of the West Economics, Bloomberg, Federal Reserve